

**BASIC MARKET LEVEL PROGRAM**

2060168522

## AGENDA

- SITUATION ANALYSIS
- MARKET CHARACTERISTICS AND TRIGGER POINTS (PER 1994 BUSINESS PLAN)
- PROBLEM MARKET IDENTIFICATION
- GEOGRAPHIC ACTION PLANS

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## SITUATION ANALYSIS

- BASIC SHARE IS BEGINNING TO ERODE AND ITS PERFORMANCE IN GEOGRAPHICALLY IMBALANCE
- GPC EXHIBITS SUBSTANTIAL STRENGTH IN SOME MARKETS AND HAS A MORE GEOGRAPHICALLY BALANCED PERFORMANCE
- IN NUMEROUS MARKETS, PARTICULARLY IN THE WEST, WE HAVE CROSSED KEY BENCHMARKS
- RJR'S PRIVATE LABEL APPROACH CONTINUES TO INCLUDE AGGRESSIVE PRICING
- NATIONALLY, OUR MOST IMPORTANT MEASURES REMAIN VERY POSITIVE
  - MARLBORO SHARE UP
  - DISCOUNT SHARE DOWN

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## KEY CHARACTERISTICS OF MARKETS

1. MARLBORO'S PACK PRICE GAP WITH LOWEST EXCEEDS 55¢ AND IS BEING DRIVEN BY LOW-END PRICING BEHAVIOR AS OPPOSED TO MARGIN TAKING ON THE TOP

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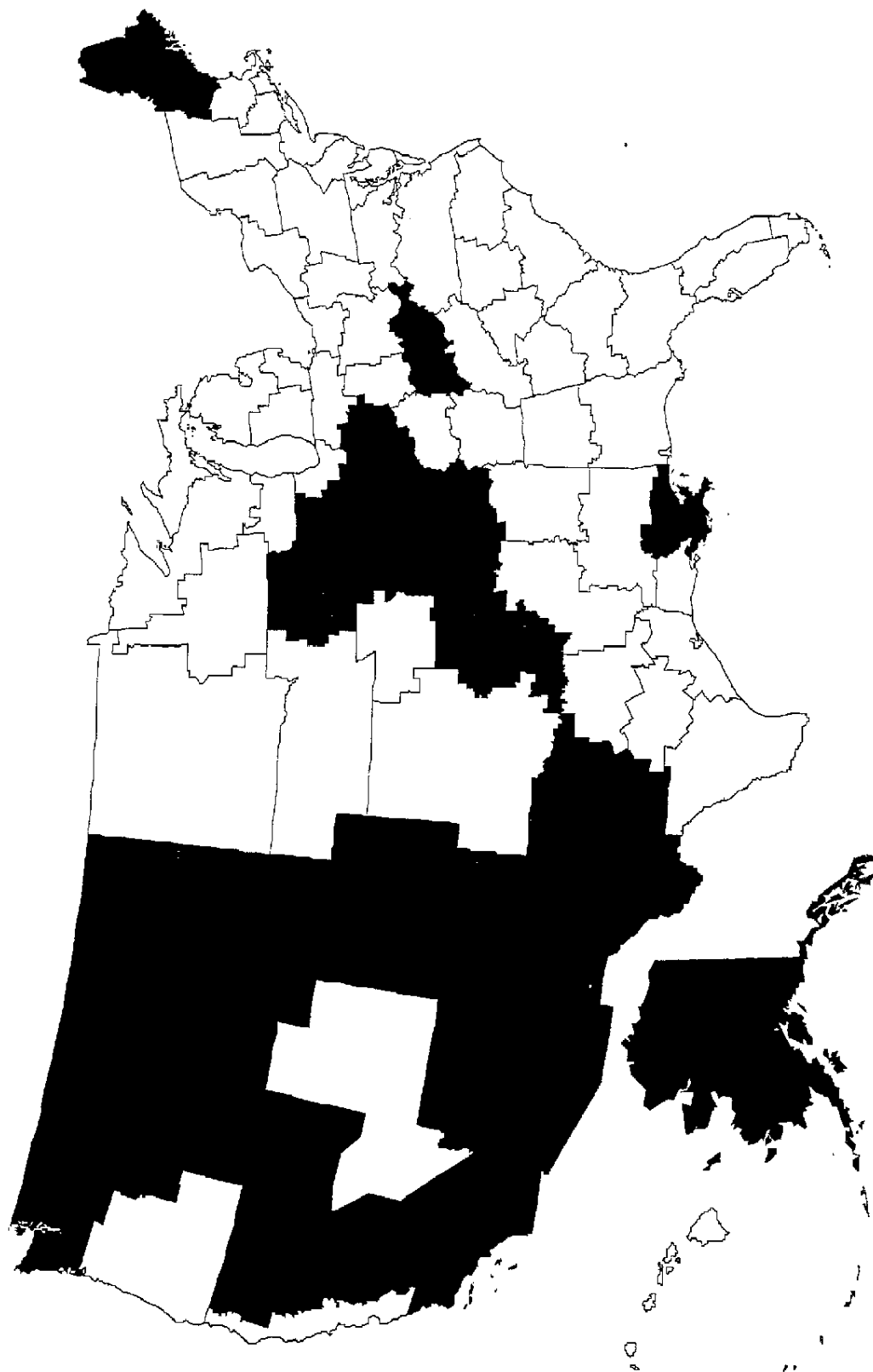
MAP #1

## KEY CHARACTERISTICS OF MARKETS

1. MARLBORO'S PACK PRICE GAP WITH LOWEST EXCEEDS 55¢ AND IS BEING DRIVEN BY LOW-END PRICING BEHAVIOR AS OPPOSED TO MARGIN TAKING ON THE TOP
2. GPC HAS GREATER THAN A 7 SOM (national average is 5)

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# MAP #2



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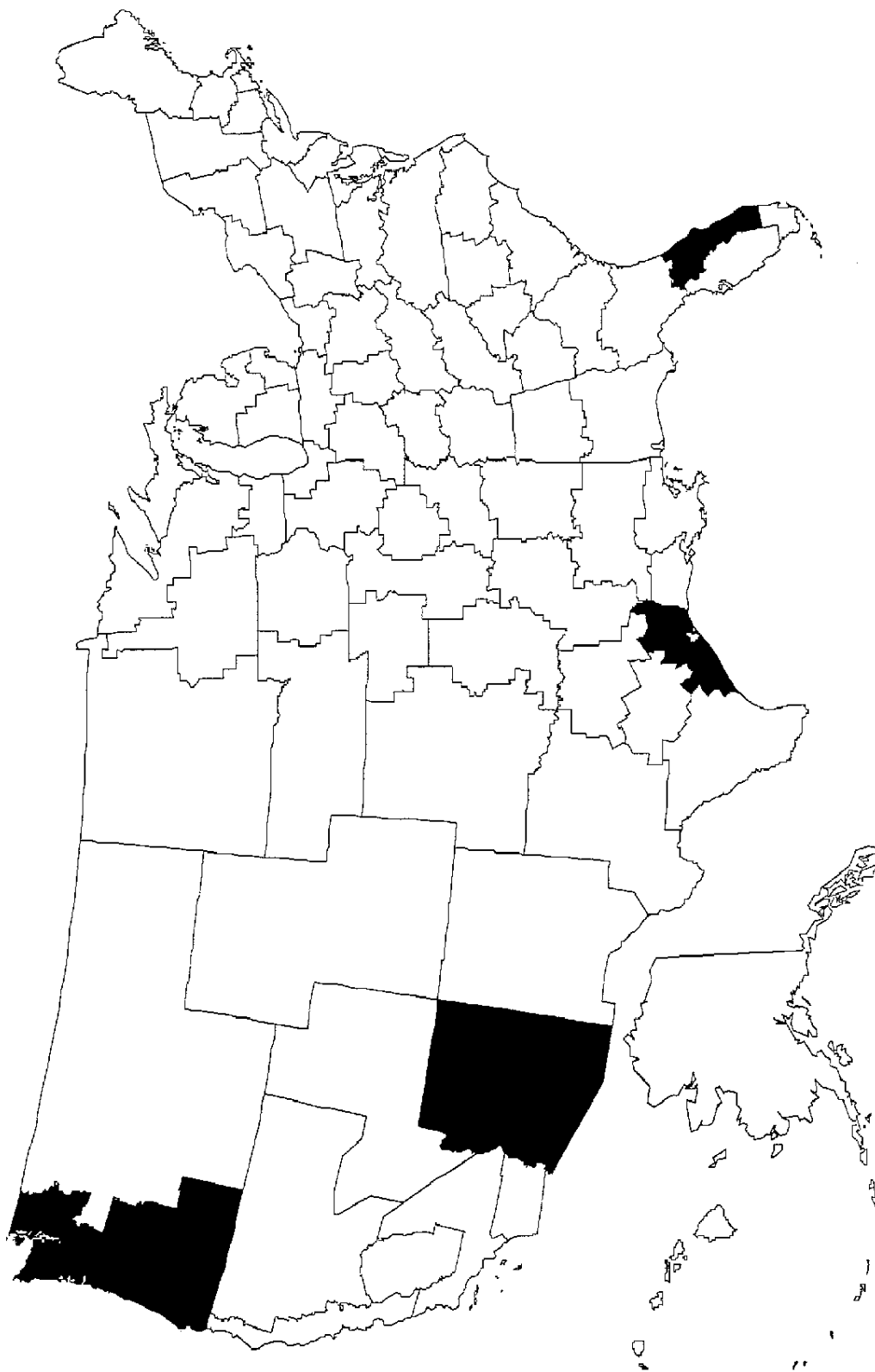
## KEY CHARACTERISTICS OF MARKETS

1. MARLBORO'S PACK PRICE GAP WITH LOWEST EXCEEDS 55¢ AND IS BEING DRIVEN BY LOW-END PRICING BEHAVIOR AS OPPOSED TO MARGIN TAKING ON THE TOP
2. GPC HAS GREATER THAN A 7 SOM (national average is 5)
3. PRIVATE LABEL SHARE > 8.5 AND . . . RJR P/L CDI IS 100+

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# MAP #3



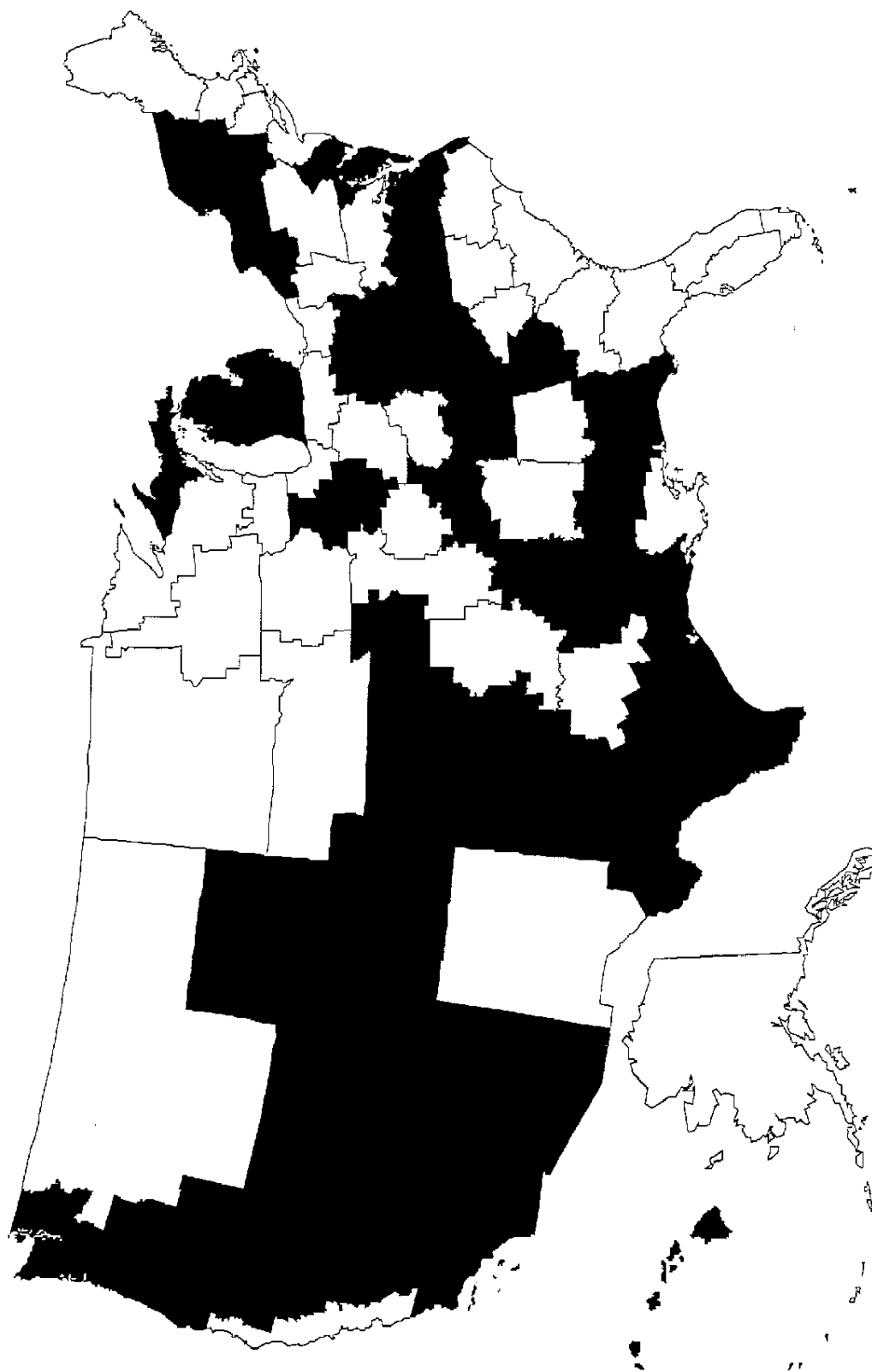
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## KEY CHARACTERISTICS OF MARKETS

1. MARLBORO'S PACK PRICE GAP WITH LOWEST EXCEEDS 55¢ AND IS BEING DRIVEN BY LOW-END PRICING BEHAVIOR AS OPPOSED TO MARGIN TAKING ON THE TOP
2. GPC HAS GREATER THAN A 7 SOM (national average is 5)
3. PRIVATE LABEL SHARE > 8.5 AND . . . RJR P/L CDI IS 100+
4. RJR PL/BASIC PRICE GAP EXCEEDS 10¢ PER PACK

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# MAP #4



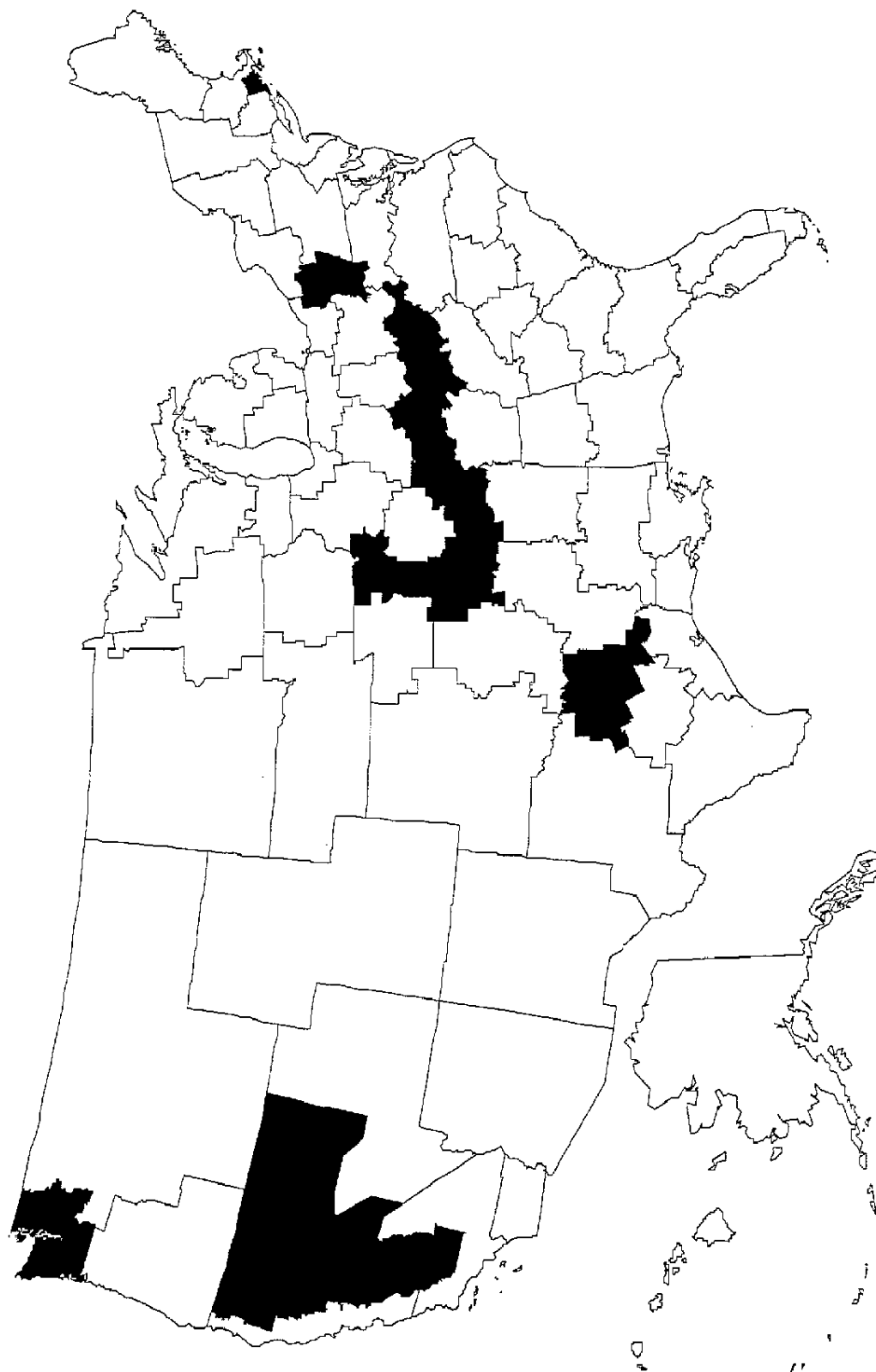
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## KEY CHARACTERISTICS OF MARKETS

1. MARLBORO'S PACK PRICE GAP WITH LOWEST EXCEEDS 55¢ AND IS BEING DRIVEN BY LOW-END PRICING BEHAVIOR AS OPPOSED TO MARGIN TAKING ON THE TOP
2. GPC HAS GREATER THAN A 7 SOM (national average is 5)
3. PRIVATE LABEL SHARE > 8.5 AND . . . RJR P/L CDI IS 100+
4. RJR PL/BASIC PRICE GAP EXCEEDS 10¢ PER PACK
5. BASIC'S SOC WAS 15+ BUT HAS DECLINED TO LESS THAN 15

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# MAP #5



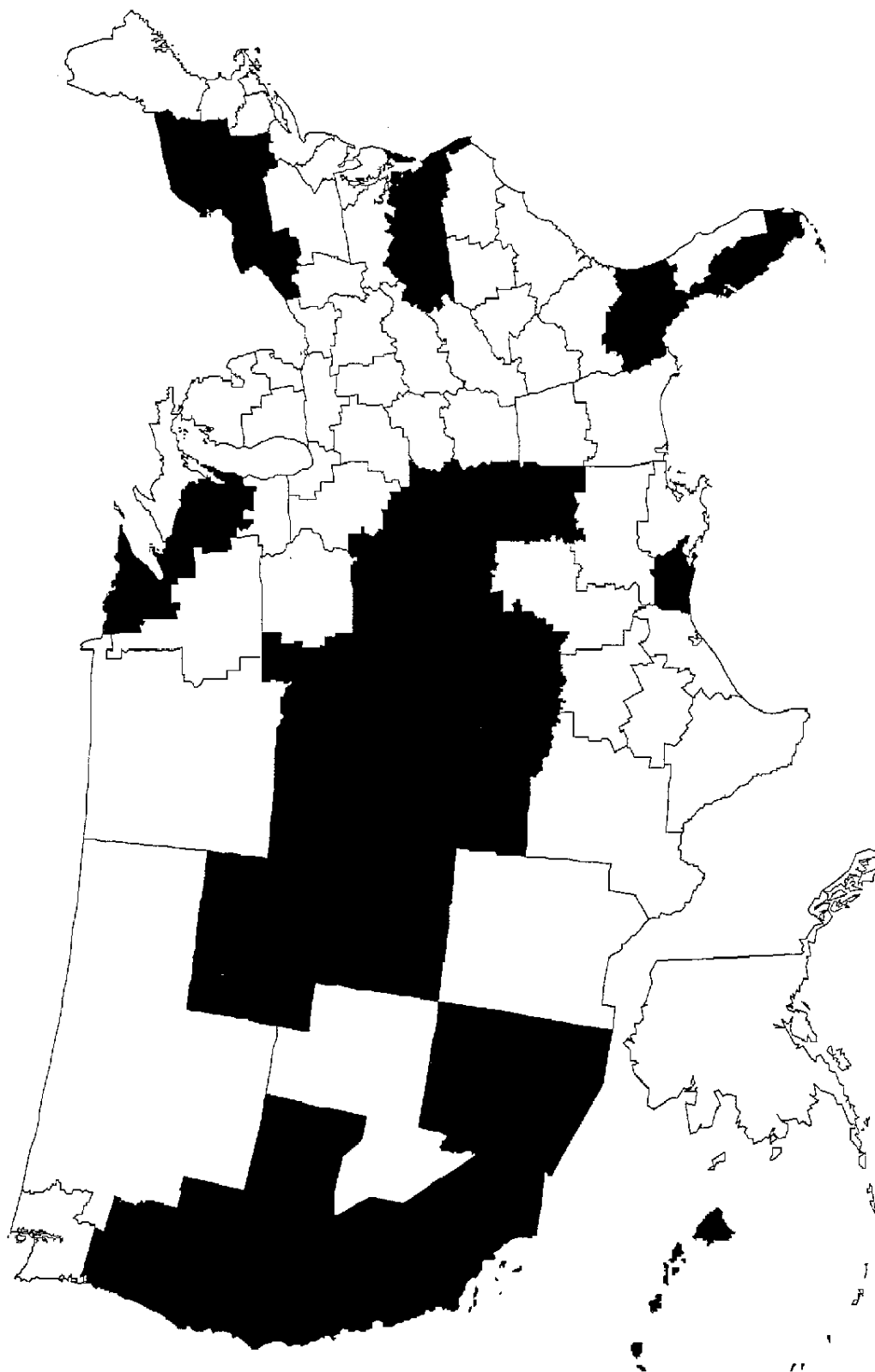
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## KEY CHARACTERISTICS OF MARKETS

1. MARLBORO'S PACK PRICE GAP WITH LOWEST EXCEEDS 55¢ AND IS BEING DRIVEN BY LOW-END PRICING BEHAVIOR AS OPPOSED TO MARGIN TAKING ON THE TOP
2. GPC HAS GREATER THAN A 7 SOM (national average is 5)
3. PRIVATE LABEL SHARE > 8.5 AND . . . RJR P/L CDI IS 100+
4. RJR PL/BASIC PRICE GAP EXCEEDS 10¢ PER PACK
5. BASIC'S SOC WAS 15+ BUT HAS DECLINED TO LESS THAN 15
6. BASIC'S SOC UNDERDEVELOPED (BELOW 12 SOC) AND IS FLAT OR DECLINING

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# MAP #6



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## OBJECTIVES

- CORRECT BASIC'S PROBLEM MARKETS AND ACHIEVE A GEOGRAPHICALLY BALANCED PERFORMANCE
- ATTACK RJR P/L WITHOUT REWARDING RETAIL PARTICIPANTS
- PROTECT MARLBORO
- MINIMIZE IMPACT ON PRICE GAP

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## LEVEL ONE RESPONSE

### MARKETS/GEOGRAPHIES

SEATTLE, SACRAMENTO, PORTLAND, FRESNO, SAN FRANCISCO, LOS  
ANGELES, SAN DIEGO, PHOENIX *Philadelphia / Harrisburg*

- 11.2% INDUSTRY VOLUME

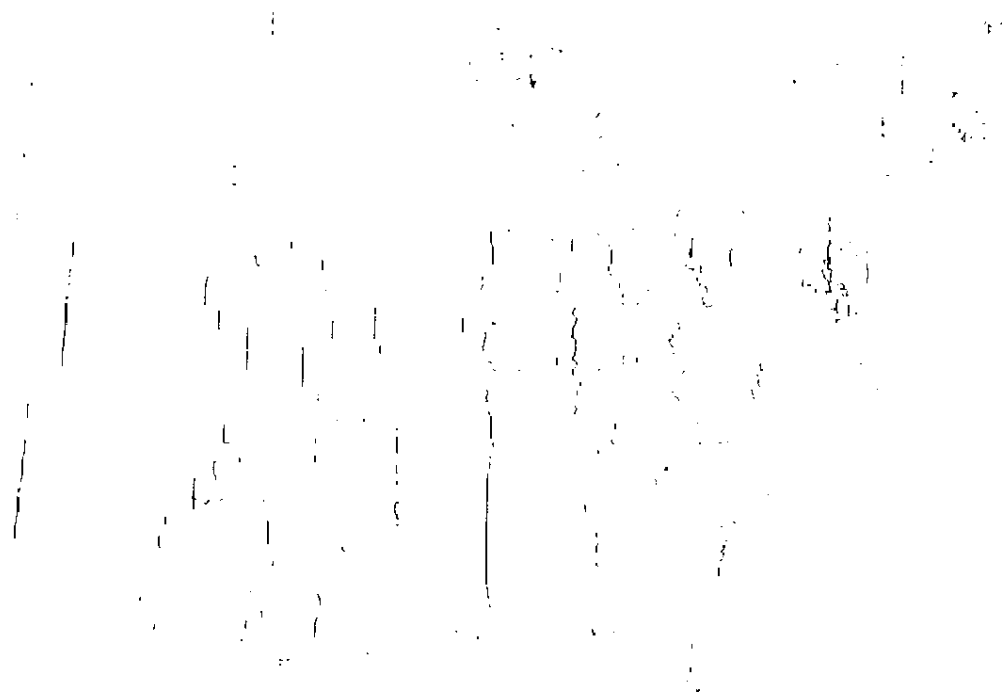
PROBLEM: WEST COAST IS A DISASTER

### PROGRAMS

- BASIC B1G1F — 2 WEEKS
- HIATUS — 2 WEEKS
- BASIC B2G1F — 2 WEEKS
- HIATUS 2 WEEKS
- BUY DOWN TO WITHIN 10¢ FOR 1 MONTH
- INCREASE FSI COVERAGE/RETAIL PROMOTION
- DOUBLE MARLBORO FLEX

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## LEVEL ONE RESPONSE



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## LEVEL TWO RESPONSE

### MARKETS/GEOGRAPHIES

OMAHA, KANSAS CITY, ST. LOUIS, MEMPHIS, TULSA, OKLAHOMA CITY,  
LAKE CHARLES, DENVER

- 9.1% INDUSTRY CONTRIBUTION

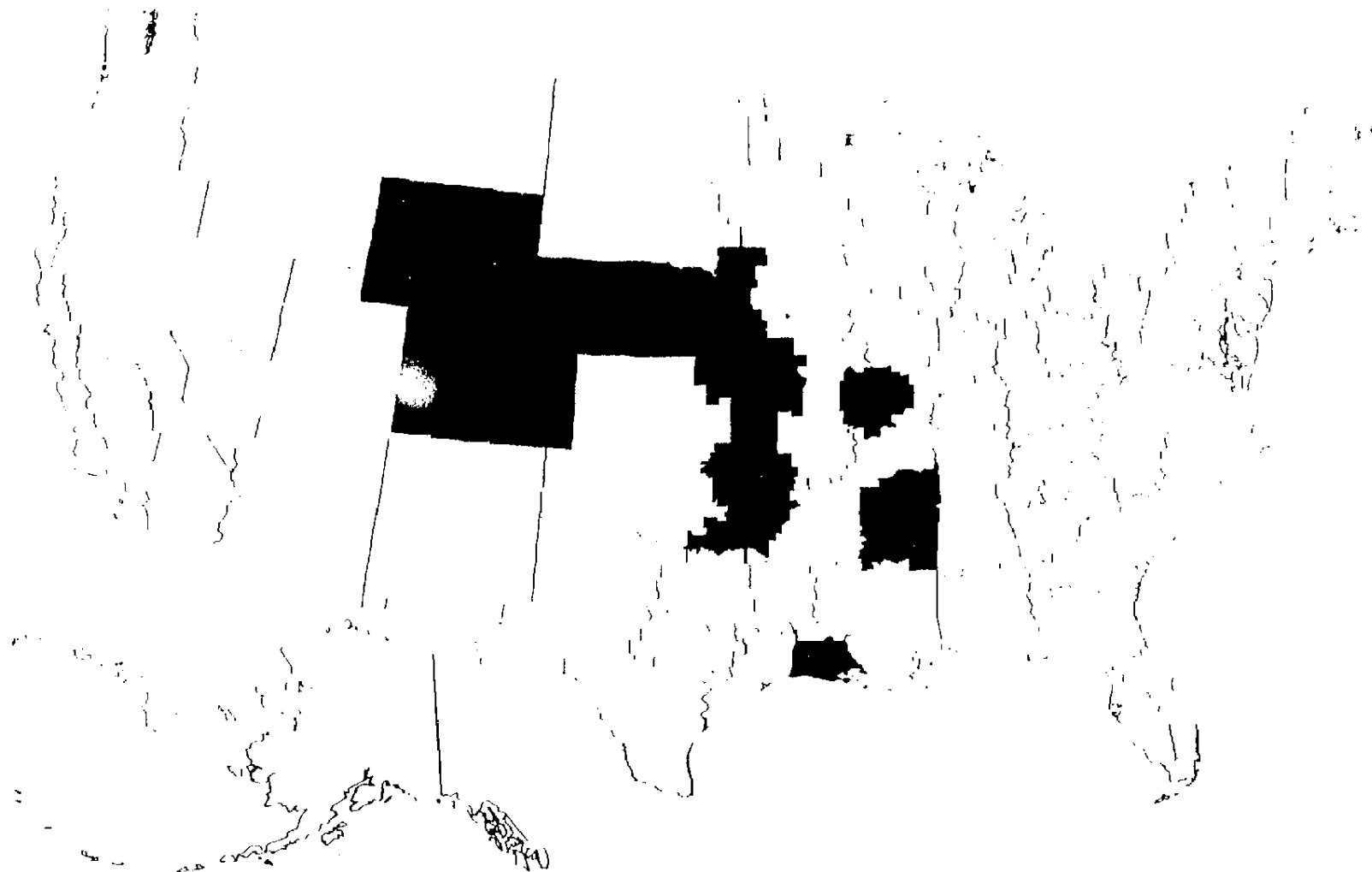
PROBLEM: BASIC PERCEIVED SMALL RELATIVE TO GPC

### PROGRAM

- BUY DOWN TO WITHIN 10¢
- FREE STANDING DISPLAY WITH PAYMENT FOR THREE MONTHS
- INCENTIVE HEAVY UP

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## LEVEL TWO RESPONSE



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## LEVEL THREE RESPONSE

### MARKETS/GEOGRAPHIES

PITTSBURGH, LOUISVILLE, LEXINGTON, PADUCAH, SPRINGFIELD,  
RICHMOND

- 6.9% INDUSTRY CONTRIBUTION

### PROBLEM:

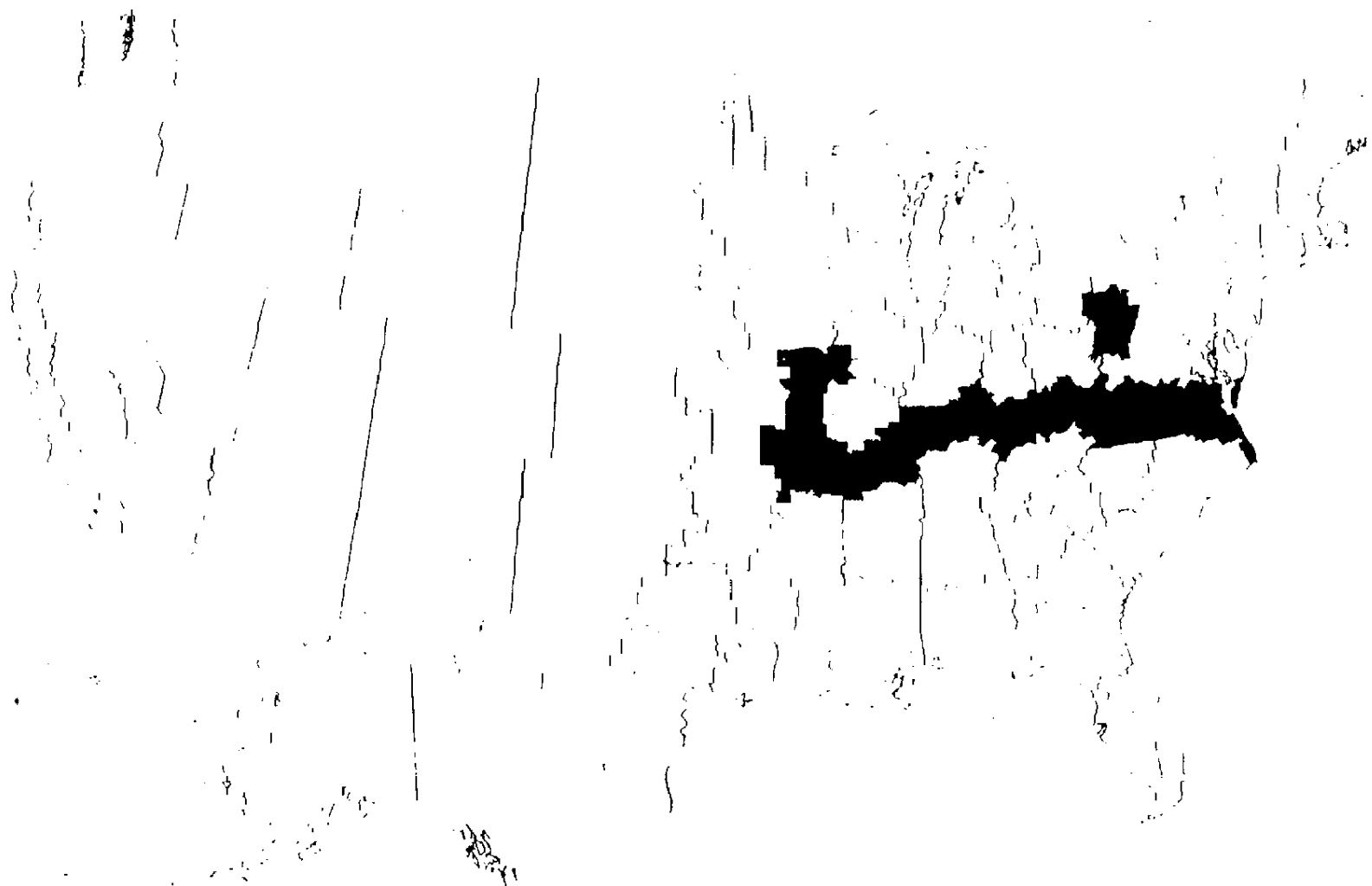
- BASIC EROSION TO RJR PRICING
- GPC SIZE

### PROGRAM

- BUY DOWN TO WITHIN A DIME

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## LEVEL THREE RESPONSE



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## LEVEL FOUR RESPONSE

### MARKETS/GEOGRAPHIES

ALBANY, SYRACUSE, BUFFALO, HARRISBURG, ~~PHILADELPHIA~~,  
JACKSONVILLE, TAMPA, MIAMI, ORLANDO, GREEN BAY, DALLAS

- 16.1% INDUSTRY CONTRIBUTION

### PROBLEM:

- BASIC UNDERDEVELOPED
- EITHER NO CULPRIT OR PM P/L

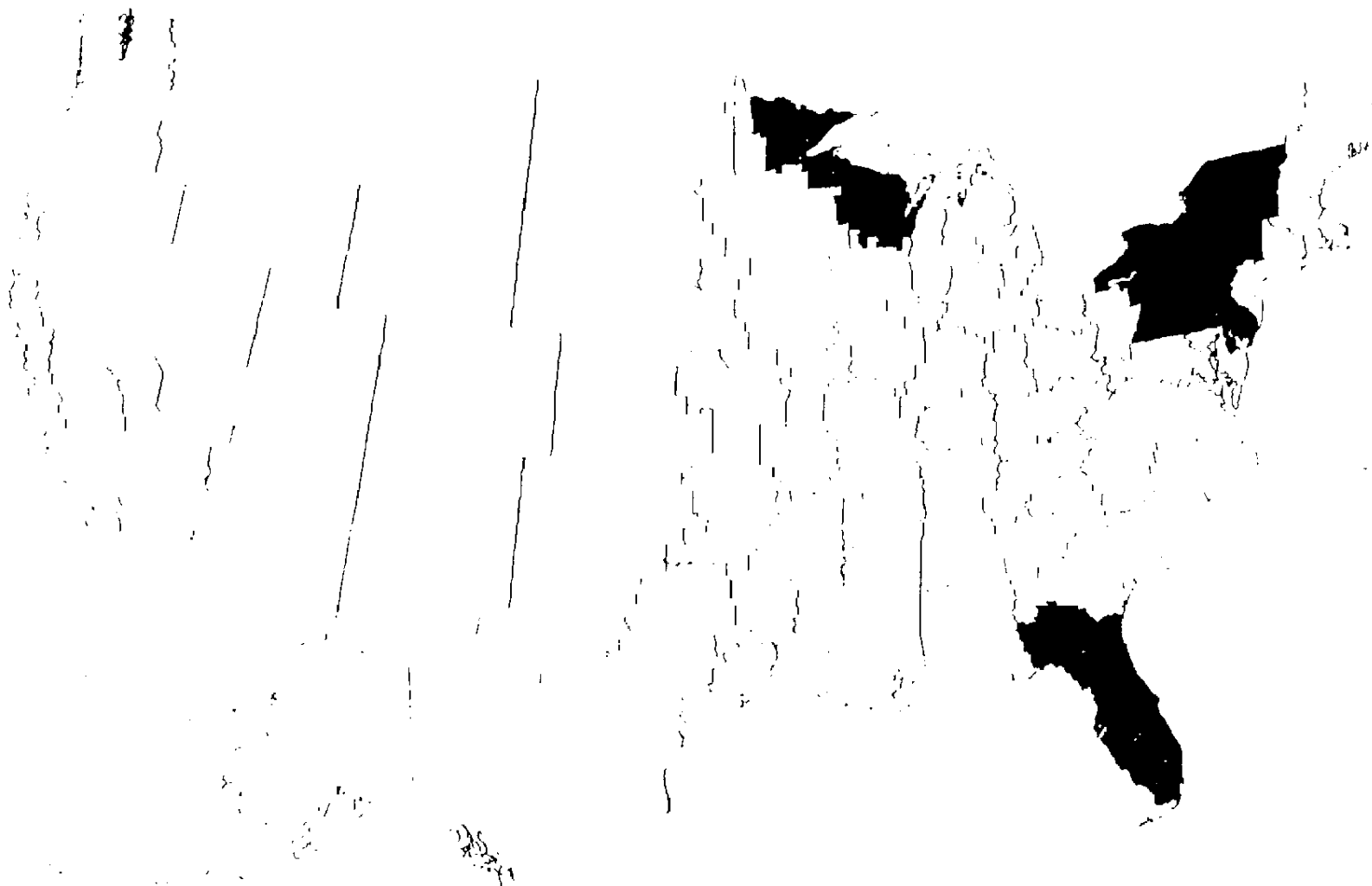
### PROGRAM

- FSI'S (BI-WEEKLY FOR 2 MONTHS)
- RETAIL MASTERS DESIGNATED DISPLAY, (#1 DISPLAY POSITIONED IN RETAIL MASTERS)

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## LEVEL FOUR RESPONSE



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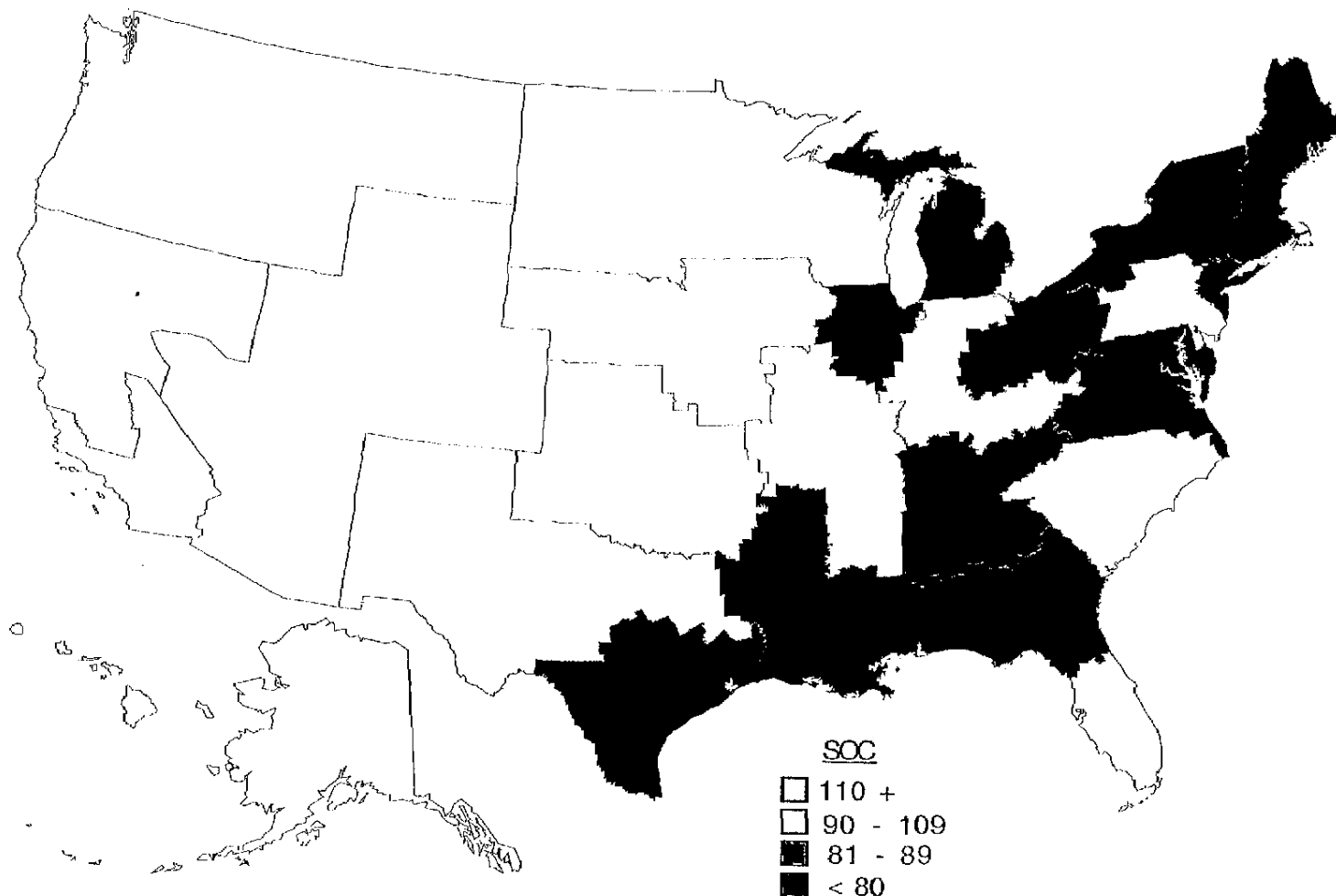
## SUMMARY

### **PROPOSED PLAN WILL COVER:**

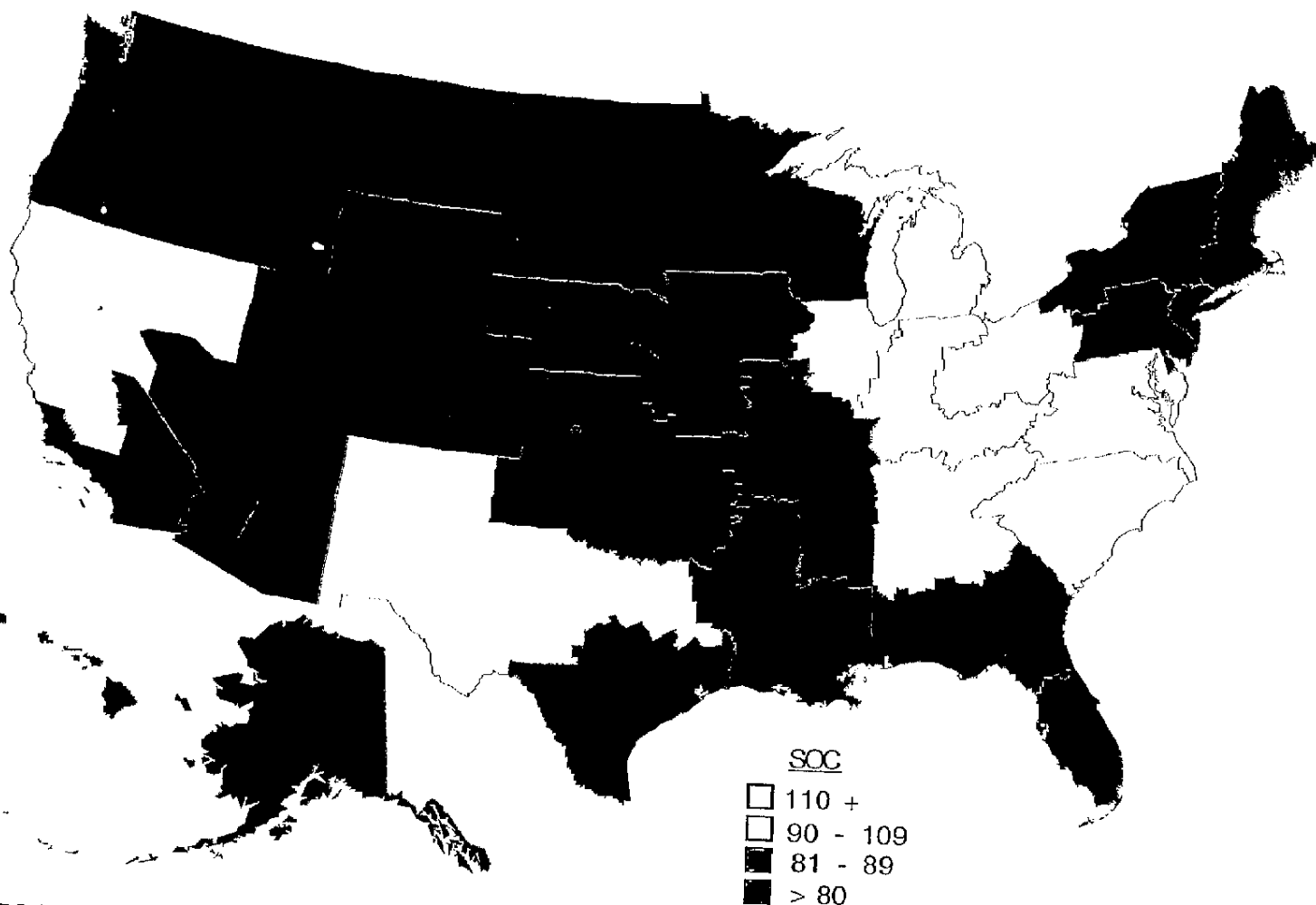
- **32 MARKETS (OUT OF 76 TOTAL)**
- **43% OF INDUSTRY VOLUME CONTRIBUTION**
- **32% BASIC VOLUME CONTRIBUTION**

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# BASIC SHARE OF CATEGORY INDEX (NIELSEN, 1MM)



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LEVEL 1 MARKETSPM RESPONSE JANUARY—FEBRUARY

- BASIC BIG1F 2 WEEKS
- MARLBORO FLEX FUND IS DOUBLED
- BASIC B2G1F 2 WEEKS

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LEVEL 2 MARKETS

PM RESPONSE JANUARY—FEBRUARY

- BUY-DOWN BASIC TO WITHIN 10¢
  - NO CHANGE IN FLEX FUND

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## BASIC RESPONSE

### OBJECTIVE

- RESPOND WITHOUT REWARDING PL HOLDERS
- PROTECT BASIC AGAINST GPC/MONARCH
- LIMIT RETAIL PRICE COLLAPSE AT REFUND
- PROTECT MARLBORO

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## LEVEL 1 MARKETS

<u>MARKET</u>	<u>BASIC SOC</u>	<u>PRICE GAP</u>		<u>SITUATION</u>
		<u>BASIC</u>	<u>MARLBORO</u>	
HARRISBURG	10/71	9¢	41¢	- LARGE RJR/PL PRESENCE - "JACKS" IN SHEETZ - LOWEST AVG. = \$1.25 - RJR/PL = \$1.25
PHILADELPHIA	9/64	6¢	40¢	- WAWA HAS ACCEPTED JACKS AT 99¢ - LOWEST AVG. = \$1.34 - RJR/PL = \$1.38
PHOENIX	6/43	12¢	48¢	- AUSTIN IN CIRCLE K - GPC GENERALLY - LOWEST AVG. = \$1.17 - RJR/PL = \$1.15
SACRAMENTO	16/114	11¢	41¢	- RJR/PL (14 SOC) - GPC LARGE PRESENCE (23 SOC) - LOWEST AVG. = \$1.50 - RJR/PL = \$1.26

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## LEVEL 1 MARKETS

<u>MARKET</u>	<u>BASIC SOC</u>	<u>PRICE GAP</u>		<u>SITUATION</u>
		<u>BASIC</u>	<u>MARLBORO</u>	
LOS ANGELES	9/64	7¢	59¢	- RJR/PL STRONG CATEGORY SHARE (23 SOC) - GPC IS DEVELOPED - WHEN/IF ARCO ACCEPTS - LOWEST AVG. = \$1.41 - RJR/PL = \$1.30
FRESNO	9/64	10¢	57¢	- RJR/PL (14 SOC) - LOWEST AVG. = \$1.34 - RJR/PL = \$1.26
CHARLOTTE	21/150	5¢	48¢	- STRONG BASIC MARKET - RJR/PL PRESENCE IS SIGNIFICANT (11 SOC) - LOWEST AVG. = \$1.07 - RJR/PL = \$0.99
DENVER	7/50	16¢	50¢	- RJR/PL (16 SOC) - LOWEST AVG. = \$1.21 - RJR/PL = \$1.19

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POTENTIAL LEVEL 1 MARKETS

<u>MARKET</u>	<u>BASIC SOC</u>	<u>PRICE GAP BASIC</u>	<u>MARLBORO</u>	<u>SITUATION</u>
SALT LAKE	11/79	11¢	52¢	- RJR/PL (9 SOC) - GPC STRENGTH (46 SOC)
ORLANDO	5/35	8¢	49¢	- LARGE RJR/PL PRESENCE (19 SOC)
MIDLAND	18/129	11¢	48¢	- RJR/PL (9 SOC)
OKLAHOMA CTY	8/57	14¢	50¢	- RJR/PL (10 SOC)
DALLAS/FT WR	22/157	7¢	43¢	- RJR/PL (7 SOC)

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## LEVEL 2 MARKETS

<u>MARKET</u>	<u>BASIC SOC</u>	<u>PRICE GAP</u>		<u>SITUATION</u>
		<u>BASIC</u>	<u>MARLBORO</u>	
BUFFALO	9/64	12¢	43¢	- MAJOR COMPETITOR MONARCH - BASIC UNDERDEVELOPED
BALTIMORE	5/36	11¢	50¢	- ATC/PL STRENGTH
SAVANNAH	19/136	14	51	- BASIC STRENGTH - WIDE GAP - BASIC VULNERABLE
NEW ORLEANS	5/36	15¢	45¢	- GPC (21 SOC)
LAKE CHARLES	9/64	20¢	53¢	- GPC (12 SOC) - MONARCH (10 SOC)
OMAHA	5/36	13¢	50¢	- GPC (12 SOC) - MONARCH (10 SOC)
KANSAS CITY	9/64	18¢	50¢	- GPC (21 SOC)

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LEVEL 2 MARKETS

<u>MARKET</u>	<u>BASIC SOC</u>	<u>PRICE GAP</u>	<u>SITUATION</u>	
		<u>BASIC</u>	<u>MARLBORO</u>	
TULSA	11/79	16¢	45¢	- GPC (24 SOC)
ALBUQUERQUE	6/43	13¢	47¢	- GPC (30 SOC)
LOUISVILLE	15/107	15¢	49¢	- GPC (15 SOC)
LEXINGTON	17/121	15¢	49¢	- GPC (16 SOC)
SAN FRANCISCO	12/86	12¢	51¢	- GPC (22 SOC)
SAN DIEGO	6/43	15¢	57¢	- GPC (46 SOC)

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**WA WA**  
**SOUTHERN NEW JERSEY/EASTERN PA**

- **BRONSON OUT/JACKS IN**
- **RJR IS PROVIDING 99¢ PRICING**
- **BASIC IS PRICED AT \$1.31**
- **RETAIL MASTERS IS AT RISK**

**RECOMMENDATION**

- **EQUAL BUYDOWN OFFER TO ALL COMPETING RETAILERS IN WA WA MARKETS TO A LOWEST POSSIBLE PRICE OF \$1.09**
- **REQUIRE WA WA TO FEATURE DUMP BINS FOR DURATION OF BUYDOWN IN ORDER TO COMPLY WITH RETAIL MASTERS**

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